WORLD CHRONICLE

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Department of International Economic
and Social Affairs (DIESA)

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Ruth Pearson, Business Week Magazine
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SYNOPSIS

Overall World Oil Situation

Charles Constantinou, Chief of the Energy and Resources Branch, United Nations Department of International Economic and Social Affairs, reviews the overall world oil situation ranging from reserves to production capacities to oil prices to supply and demand. Mr. Constantinou pinpoints the winners and losers because of the latest oil price hike and explains why governments kept ignoring the need to develop alternative energy sources.

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VOICE From United Nations Headquarters in New York, this is **WORLD CHRONICLE**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **WORLD CHRONICLE**.

LITTLEJOHNS: I'm Michael Littlejohns and this is **WORLD CHRONICLE**.

With the crisis in the Persian Gulf still unresolved, oil prices are rising again. Nations which have relaxed their energy conservation and efficiency measures because of low prices and ample supply in recent years have just had another rude awakening. However, on the positive side, the latest oil shock may serve as an impetus for governments to re-examine their energy policies and hopefully, will spark a renewed emphasis on conservation as well as the development of alternative energy sources.

Our guest today, Charles Constantinou of Cyprus, is Chief of the Energy and Resources Branch of DIESA, the United Nations Department of International Economic and Social Affairs. His office is responsible for monitoring and analyzing world energy trends and prospects. Mr. Constantinou will be interviewed here at United Nations Headquarters in New York by: Walter Pfaeffle of the Kuwait News Agency; Ruth Pearson of Business Week Magazine; and Bhaskar Menon of PTI-TV of India.

For some background information, here's a report from our correspondent, Steve Whitehouse.

WHITEHOUSE: Energy, an indispensable element in the life of all nations, a building block of economic progress, is once again at the centre of world concern.

Oil supplies 40% of the world's energy, coal 33%, natural gas 23% and electricity from hydro power, nuclear and geothermal energy provides the rest. The oil consumption rate is higher in the developed market economies. For example, 45% of the United States commercial energy depends on petroleum.

Coal is still a major energy source for developing countries, such as India and China. It is plentiful and inexpensive, but it pollutes the air with sulphur dioxide when burned. In the past few years, increasing attention has been paid to natural gas, because of its relatively benign effects on the environment. But the high costs of the infrastructure needed, such as building the vast network of pipelines, have so far restrained the development of this versatile fuel.

The use of hydro power, nuclear and geothermal energy in producing electricity is still relatively small. Oil is the main energy source for transportation and electricity generation. Since 1986, when average world oil prices dropped from the peak of $35 per barrel in 1981 to less than $14, the world demand for oil has increased.

Low prices for oil have provided little incentive for oil exploration and development. New oil discoveries have been scarce. Oil production in North America, the North Sea and the Soviet Union continues to decline. Increasingly, the world is depending on oil supplies from OPEC, the Organization of Petroleum Exporting

Countries, particularly from the Middle East. This region has increased crude oil production in the last few years to meet the growing world demand.

> If the world oil consumption continues unabated, demand may soon exceed current oil production. Most of the oil expansion programmes will have to be made in the Middle East, which accounts for 55% of total world oil reserves.
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> So far, oil is still the most viable form of energy. As a result, the world depends heavily on it. But it is not renewable. It is estimated that existing proved world oil reserves can last for another 50 years. But after that, where is the world going to turn for its energy supply?

LITTLEJOHNS: Mr. Constantinou, regardless of the 50-year number that we've just heard about, only a few months ago we were told that the world was awash in oil and that prices were economically low. Within a very short time of the Iraqi aggression against Kuwait we are confronted by rising prices at the pumps and we're told that the large inventory is rapidly evaporating. How can these things happen so quickly?

CONSTANTINOU: Well, first of all with regard to the issue of proved oil reserves, at the moment the world has about one trillion barrels of proved oil reserves. That would certainly be enough to last the world for another 50 years at the current rate of consumption, but proved oil reserves are defined to estimate those reserves that are exploitable at the current costs, technology and prices. It is generally accepted that you could easily double that number and therefore most geologists believe that the world has more than two trillion barrels of oil reserves. Therefore, at the current rate of consumption the world could last for 100 years. Certainly the number of

reserves change with the price of oil because it is easier to recover oil at the higher cost when the price is higher.

LITTLEJOHNS: So if oil goes to $50 a barrel we'll have enough oil to last for 200 years perhaps?

CONSTANTINOU: Perhaps. There is no limit and we are talking in terms of conventional oil resources and reserves and then there are plenty of what we call unconventional oil resources and reserves.

LITTLEJOHNS: Shale, and ....

CONSTANTINOU: Heavy oils, tar sand, oil shales and so forth but of course their development is much more costly. Now it is also true that in recent years the world has been awash with oil supplies. After all, in 1986 the collapse in oil prices came around because there was increasing demand because of the higher oil prices, there was a lot of substitution, there was a lot of development of other sources of energy especially coal, nuclear, natural gas and since then, after the collapse of the oil prices, demand has changed course. For the last five years world demand has been going up at around two percent per annum but in total, it has meant that the world needs another six million barrels per day, and every year under normal increases of oil demand we would need another million barrels a day. Now, in our recent studies which we published in the "World Economic Survey 1990" we indicated, as so many other experts in the world in fact, that the gap between peak demand and available production capacities was closing very rapidly. Everybody was producing at full capacity, except for a few OPEC countries, so any additional demand would have to come from the OPEC countries.

LITTLEJOHNS: The additional supply?

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CONSTANTINOU: Right. Now, in December last year for example OPEC was producing at over 24 million barrels a day and we were told that their production capacity was anywhere between 25-27 million barrels a day. So with an annual increase of one million barrels a day you need two or three years to catch up with that capacity and therefore the problem has been, before the present crisis, the expansion of capacity where countries had proved reserves and most of the proved reserves in the world are in the OPEC countries.

LITTLEJOHNS: Mr. Constantinou, do you think we're going to be up against a serious crisis this winter when heating demands are intense, particularly in North America?

CONSTANTINOU: One sees a lot of estimates and there is a lot of confusion with regard to numbers. Everybody throws around his or her own numbers. In fact this is one of the problems in the world oil market. There is not even that little co-operation among consumers and producers to exchange data on production and consumption and therefore various authorities put out different estimates and the same authorities keep revising those estimates.

LITTLEJOHNS: Well you're an expert, what's your estimate?

CONSTANTINOU: My estimate is that we will have problems with regard to this winter.

PFAEFFLE: Mr. Constantinou, we spoke before the programme a little bit about what would happen if the current situation were to persist let's say for another year at current price levels -- $30-$40 a barrel. What are your estimates?

CONSTANTINOU: Well, these are very rough estimates which we have just concluded in fact and the most obvious conclusion is that the oil exporting countries will benefit greatly. To give you an idea, the 11 countries of OPEC will benefit by about $80-$90 billion on an annual basis. Most of this incremental income will of course go to Saudi Arabia because Saudi Arabia has already announced an increase in its production from 5.5 million barrels a day to 8 million barrels a day and of course a combination of that increase in output and exports and the increase in price from about $21 -- which was decided at the OPEC meeting you will recall at the end of July prior to the crisis as the target price of oil -- to the current price of about $30 a barrel we would imagine that the OPEC countries would benefit to what I mentioned before. Other oil exporting developing countries as well, and there are others for example Mexico, Malaysia, Angola, Cameroon -- there are about 16 other oil-exporting developing countries -- they would also benefit. And the Soviet Union is an exporter of oil and our estimate is that the Soviet Union would benefit by about $9 billion on an annual basis. Among the developed market economies of North America, Western Europe, Japan and so forth, all of them are importers of oil with the exception of Canada, Norway and the United Kingdom. Canada, Norway and the United Kingdom would benefit by about $10 billion a year whereas the other developed markets ....

LITTLEJOHNS: At $30 oil, is that what you're talking about?

CONSTANTINOU: Yes. Whereas the other developed market economies would have to pay an additional $67 billion on an annual basis of which $22 billion would be for the United States, for imports at the higher price and $14 billion for Japan, additional.

PEARSON: Mr. Constantinou, possibly you could explain to us the reason for the increase in price since there is no shortage. Several of the OPEC countries have made up for the four million loss from Kuwait and Iraq and without a shortage why do we have an increase in price and especially at the gas pump?

CONSTANTINOU: Well, if I may before I come to your question I would like to complete my answer to the previous question because there will be losers in this situation and the main losers will be the oil-importing developing countries. The oil-importing developing countries consume 6.3 million barrels a day of oil. They import 4.3 million barrels a day, in other words 1.6 billion barrels a year and at $9 additional to the price of oil of course their additional import bill will be $15 billion. The situation is equally serious with regard to the countries of Eastern Europe and all these countries have problems of course with foreign exchange. In addition, if in fact there is a physical shortage of oil supplies, in all probability they will be the last in line. The members of the International Energy Agency for example, which are the industrial developed countries, they have a sharing scheme in case of emergencies which has not been activated as yet. Why did the price of oil increase recently despite reports that there is plenty of oil? I think there are a variety of reasons. Number one, at the very beginning of the crisis, the market was very uncertain whether the OPEC countries with surplus capacities would in fact increase output. In fact you will recall that it was not until the end of August that a meeting was held by the OPEC countries and they decided by a majority vote to in fact increase their output and as a result Saudi Arabia announced an increase in output, Venezuela also will increase output and so will the United Arab Emirates. These are the countries with surplus capacities. That was one reason. The other reason is that the market in fact did expect

in a situation like this, in my opinion, the release of the strategic stockpiles built up since the first energy crisis of '73-'74 by the consuming countries, especially the United States. The United States has about 600 million barrels of strategic reserves. Japan has considerable strategic reserves as well and other developed countries. These have not been released and although it is often mentioned that they may be released I think the market believes that they will be released only if there is actual war in the Middle East and that is the third reason why prices have been going up because there is a very serious fear that with actual fighting occurring in the Middle East there is a high probability of destruction of oil production, transportation and refining facilities which may result in a really catastrophic shortfall in oil supplies.

LITTLEJOHNS: The programme is WORLD CHRONICLE. Our guest is Charles Constantinou, Chief of the Energy and Resources Branch of the U.N. Department of International Economic and Social Affairs.

MENON: Mr. Constantinou, oil is a critical sector of the world economy. It's enormously important. It has ramifications in every economic sector. Why then is there so little dialogue about energy, about oil particularly? The UN's been faced with this problem for well over a decade, your studies constantly show that there are problems yet there is no dialogue, it's all sort of armies crashing by night. Why is that?

CONSTANTINOU: Well, I will share a piece of information with you which not many people know even here at the United Nations. Back during the Second World War there was a draft oil agreement negotiated between the United Kingdom and the United States. This agreement fell through because the US Senate did not ratify it. Later on, if I recall correctly, it was '47 or

'48, this issue was brought to the United Nations by a non-governmental organization called International Co-operative Alliance and the suggestion which was discussed in ECOSOC at that time was to establish a United Nations Petroleum Commission to manage the oil resources of the Middle East. Of course, it came to naught. Since then the United Nations has been involved in a variety of energy issues including the most recent conference in 1981 in Nairobi on New and Renewable Sources of Energy but there has never been consensus in the United Nations in dealing with overall energy issues. Right now for example in the U.N., there is consensus only on two energy items: new and renewable sources of energy and exploration and development of indigenous energy resources in energy deficient developing countries. In the past I would imagine countries of the developed world plus corporations perhaps were opposing the involvement of the U.N., especially in an energy dialogue, but also in an oil dialogue. In the '70s of course the producers were happy because the price of oil increased and they were not willing to negotiate with the consuming countries except in the context if you recall of global negotiations to take into consideration all economic issues between the North and the South. In the '80s, with the collapse of oil prices, the consuming countries were extremely happy and they were not willing to negotiate despite repeated calls from various OPEC countries, including the Secretary-General of OPEC, especially in recent years, for a dialogue. We at the Secretariat level believe that our function should be to try and bring together opposing views and we did suggest in our various studies that international co-operation was absolutely essential in this field but unfortunately our recommendations like everybody else's have fallen on deaf ears.

PFAEFFLE: Mr. Constantinou, I'd like to read just one sentence from the "World Economic Outlook" that I believe you helped draft. It says here "... of immediate concern is the need to expand the production capacities of the member countries

of OPEC so that they can supply the increasing demand for oil during the 1990s". Now my question is shouldn't we focus more on finding other sources of energy rather than insisting on oil?

CONSTANTINOU: Well, the world has gone through this before in the '70s and the '80s. Enormous amounts of money have been spent, both in exploration and development and development of alternative sources of energy. Literally trillions of dollars have been invested in nuclear energy, in coal, in exploration and development of high-cost oil resources, all the way from the Arctic to the Antarctic if you like. The world was lucky in the '70s and early '80s. There were incredible discoveries and development of oil. There was the North Sea, there was Mexico, there was very substantial increase in oil production in the Soviet Union, etc. The probabilities of that being repeated are very small indeed but that does not mean that one should not look first for more oil elsewhere. We have a report which we just submitted to the General Assembly -- it will -- be discussed next month -- on energy exploration and development of energy resources in developing countries and we point out that there is potential there but unfortunately, especially with the collapse in oil prices, investments have also collapsed. They have been reduced enormously but it is not only oil, you are right, but oil is the cheapest source of energy, the least costly source of energy.

LITTLEJOHNS: Well it is now, but will it be a few years down the road?

CONSTANTINOU: Maybe the price is high but the cost of developing it is still low.

PFAEFFLE: What about natural gas? A good case could be made for natural gas. It's abundant in many countries even those that do not have oil.

CONSTANTINOU: You're absolutely correct and in fact natural gas expansion has been widespread. First, of course you have the North American grid system being developed, in the last 20-25 years you had the European grid system developed with gas coming all the way from the Soviet Union to Western Europe, from the Groningen field in the Netherlands again to Western Europe and also from Algeria through Tunisia and under the Mediterranean to Italy through an undersea pipeline. There are enormous possibilities and prospects of developing more and more gas resources. They are plentiful, they are as important and as big as oil and in that respect I would also like to tell you that in many countries oil exploration, in the past if they found gas they would run away from it. In other words they were really not looking for gas in many countries. Now a new effort is being made mainly because of environmental reasons, because gas is less environmentally damaging than coal or oil, that as we heard in the introduction to this programme the infrastructural investments are high and it takes a lot of time to build up the system, the system of transportation and also the system of distribution.

PFAEFFLE: But isn't it much higher to invest in expensive refinery capabilities to refine oil than in ....

CONSTANTINOU: No. I would think it's much more expensive in gas but that is proceeding very fast and the World Bank for example is concentrating now on assistance to developing countries in developing and exploiting their gas resources and there are quite a few developing countries with such resources.

LITTLEJOHNS: I can see Ruth Pearson is dying to get a question in.

PEARSON: Yes. Now, with the threat of the greenhouse effect, and that's partially due to fossil fuels, how will that affect the dependence on oil?

CONSTANTINOU: Well, that is again a big question mark and this is associated with what we discussed before or rather an issue that was raised in expanding production capacity. On the one hand, as far as the oil market is concerned, we were faced with a situation where capacity should be expanded. It could be expanded significantly only in a few OPEC countries. There you had the problem that some of them had nationalized the oil companies in the '70s and now they were changing policies. For example, both Iraq and Venezuela had been consulting the oil companies to see under what terms and conditions the oil companies would be willing to go back to these countries to invest in developing already proven oil reserves. No conclusion has been reported with regard to those two initiatives but the question still remains, even if the technology were there, if the money were there, what about security of markets. In other words, would these countries make the investment and then be faced with restrictions for oil imports especially in countries in the developed world which are very much concerned with regard to the environmental aspects including of course the climate warming theory.

LITTLEJOHNS: Mr. Constantinou, what is your estimate of the likely price of oil per barrel if this situation continues whether or not we have a shooting war over the invasion of Kuwait? Do you think that now that we're up in the 30s per barrel it's likely to continue that way?

CONSTANTINOU: You know you asked me that question I think two years ago and we left it unanswered. At that time if I recall correctly you asked was $18 satisfactory ....

LITTLEJOHNS: Was it $18 then, sounds cheap?

CONSTANTINOU: ... to both consumers and producers and really there was no rational answer to your question. It just happened to be a price which was acceptable to both exporters and importers and it provided a balance to the consuming and the producing countries.

LITTLEJOHNS: Mr. Constantinou, I think that you've given the answer to that. You really don't know. Mr. Constantinou, that's all the time we have. Thank you for joining us on this edition of **WORLD CHRONICLE.**

Our guest has been Charles Constantinou, Chief of the Energy and Resources Branch of the U.N. Department of International Economic and Social Affairs. He was interviewed here at United Nations Headquarters in New York by: Walter Pfaeffle of the Kuwait News Agency; Ruth Pearson of Business Week Magazine; and Bhaskar Menon of PTI-TV of India.

Thank you for joining us. We invite you to be with us for the next edition of **WORLD CHRONICLE.**

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